

14 March 1974

HISTORY

MEMORANDUM FOR: General Counsel

SUBJECT: Historical Review of Audit of CIA  
Expenditures by the General  
Accounting Office

REFERENCES: Noted on Page 5 and attached

1. The enactment of the CIA Act of 1949 provided the Director of Central Intelligence broad authority to expend monies on his certification alone without the usual audit by the General Accounting Office (GAO). The Director adopted the policy of limiting the exercise of this special authority to those activities which in the national interest deserved the maximum security protection, although he considered all funds appropriated to the Agency to be technically on an unvouchered basis and therefore exempt from audit by GAO. Accordingly, the Director requested that the GAO continue auditing vouchered expenditures.

2. Beginning in March 1959, staffs of the Special CIA Subcommittee of the House Armed Services Committee and the GAO met to discuss the audit arrangement between CIA and GAO. Then in May, senior GAO officials appeared in executive session before the Special CIA Subcommittee, which was chaired by Congressman Kilday, to further examine the audit question. As a result of this session, the Comptroller General wrote Chairman Kilday in June 1959 recommending that GAO broaden its auditing procedures of CIA to bring them in line with the general audit procedures used with other agencies. This broadening was possibly to include a limited audit of unvouchered funds. Mr. Kilday then wrote the DCI, Mr. Dulles, suggesting that CIA and GAO confer on the audit question.

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3. On 30 June 1959, Mr. Dulles informed the President of the audit situation, noting that while CIA could take the position that all expenditures were exempted from GAO audit, the Agency had adopted the policy of submitting as many expenditures as possible to GAO audit and this normally amounted to about 45% of all expenditures.

4. A CIA-GAO working group was established in July 1959 to study the question of whether GAO could apply its "comprehensive audit" approach, then in use with other agencies, to CIA. Under the "comprehensive audit" the GAO's basic purpose was to review and evaluate the manner in which an agency carries out its financial responsibilities, including expenditures of funds and utilization of property and personnel in the furtherance only of authorized programs in an "effective, efficient and economic manner." In conducting such an audit the GAO would examine the organization structure, review agency practices and procedures followed in carrying out agency policies and make selective examination of actual transactions.

5. As a result of the CIA-GAO discussions, Mr. Dulles wrote the Comptroller General in October 1959 stating his belief that GAO could expand its audit of CIA, but added a cautionary note:

... /the Agency policy of submitting the maximum expenditures possible to GAO audit/ has been exercised to such a degree that certain activities, not in themselves sensitive but conducted solely in support of highly confidential operations, are funded under general authorities without invoking my special authority to make final accounting therefor. A comprehensive audit of the sort now conducted by the General Accounting Office in other agencies, if applied to our so-called vouchered expenditures, would necessarily reach into the confidential operations which they support and which are protected by my special authority under Section 8 of the Act. In these instances, therefore, the comprehensive audit would have to be limited so as to remain outside the area of sensitive security operations.

The Comptroller General responded that he believed an expanded audit of a considerable part of the Agency's operations was possible while still remaining outside of the sensitive area protected by Section 8 authority. Under these circumstances an expanded audit was begun on a trial basis in late 1959.

6. In May 1961, after some sixteen months of the trial comprehensive audit, GAO threw in the towel. The Comptroller General wrote Chairman Kilday:

... Various steps were taken by CIA to place the General Accounting Office in a position to make a comprehensive audit of the overt activities of CIA. ... We have been given sufficient access to make reasonably comprehensive reviews of the overt activities of the Intelligence Component, but such reviews, in our opinion, will not be productive of significant evaluations because we cannot feasibly evaluate the extent to which needed overt information is available for collection or determine the need for the intelligence information selected for collation and use in the production of intelligence reports. ... In as much as we cannot, in our opinion, effectively accomplish any worthwhile audit objectives on a continuing basis, we plan to discontinue our audit of CIA activities.

7. Mr. Kilday brought the Comptroller General's letter to the attention of Congressman Vinson, Chairman of the House Armed Services Committee. Within 48 hours, Mr. Vinson replied to the Comptroller General conveying his firm opinion that the audit question should be the subject of further discussions between the Committee, the GAO and the CIA and strongly recommended the continuation of the audit in the interim. Chairman Vinson's reservations, as well as the Agency's, concerning the proposed GAO pullout were motivated in large part by the political climate then prevailing in the aftermath of the Bay of Pigs affair.

8. GAO continued its limited audit of CIA for about one year. On 21 June 1962 the Comptroller General wrote Chairman Vinson expressing his continued view that security restrictions precluded an effective audit of CIA. The Comptroller General stated his belief that to conduct a maximum effective audit, "it would be necessary for our /GAO/ audit staff to have nearly complete access to CIA activities." He continued that it would be possible to perform "reasonably comprehensive reviews...if...permitted complete access to the administrative activities, such as financial, procurement, property, and personnel management and internal review activities that are performed in support of both sensitive and nonsensitive operations of CIA." (Emphasis added.)

9. Upon consideration of the audit problems as expressed in the Comptroller General's latest letter, Chairman Vinson agreed that GAO withdraw from further audit of CIA activities. In a letter to the Comptroller General, which was drafted by the Agency, Mr. Vinson said:

...the restrictions you met with in the Central Intelligence Agency are necessary, I believe, for the proper protection of its intelligence activities and should be maintained. Also, Mr. McCone has informed us that among the reorganizational steps he has carried out is a major strengthening of the comptroller and internal audit functions in the Agency. Consequently, I believe you have met the objectives of my letter of May 18, 1961, which recommended that you continue your work at that time, and since you feel confirmed in your opinion that it is not a worthwhile effort, I am agreeable that you withdraw from further audit activities in the Central Intelligence Agency.

10. Since July 1962, the GAO has not audited CIA, but a thorough internal audit is conducted by the CIA Audit Staff and as Agency proprietary CPA firm.



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